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EPSOM & EWELL

TOWN HALL

EPSOM

12 April 2017

SIR OR MADAM

I hereby summon you to attend a meeting of the Council of the Borough of Epsom and Ewell which will be held at the Town Hall, The Parade, Epsom on **TUESDAY, 25TH APRIL, 2017** at **7.30 pm**. The business to be transacted at the Meeting is set out on the Agenda overleaf.

Prayers will be said by the Mayor's Chaplain prior to the start of the meeting.

Head of Legal and Democratic Services

COUNCIL

Tuesday 25 April 2017

7.30 pm

The Town Hall, The Parade, Epsom

For further information, please contact Fiona Cotter, tel: 01372 732124 or email: fcotter@epsom-ewell.gov.uk

FIRE PRECAUTIONS

No fire drill is planned to take place during the meeting. If an alarm sounds, members of the public should leave the building immediately, either using the staircase leading from the public gallery or following other instructions as appropriate. Do not use the lifts.

On leaving the building, please make your way to the Fire Assembly point on Dullshot Green.

AGENDA

1. **DECLARATIONS OF INTEREST**

   To receive declarations of the existence and nature of any Disclosable Pecuniary Interests from Members in respect of any item to be considered at the meeting.

2. **MINUTES** (Pages 5 - 14)

   To confirm the Minutes of the Ordinary and Extraordinary Meetings of the Council held on 14 February 2017 and 7 March 2017 (Annexe 1) respectively.

3. **MAYORAL COMMUNICATIONS/BUSINESS**

   To receive such communications or deal with such business as the Mayor may decide to lay before the Council.

4. **QUESTIONS FROM COUNCILLORS**

   To answer any written questions from Councillors

   Note: The deadline for questions is 5pm on Wednesday 19 April 2017 (17.00 hours on the third clear working day before the meeting).

5. **TREASURY MANAGEMENT STRATEGY 2017/18 TO 2019/20** (Pages 15 - 60)

To receive and consider the report of the Director of Finance and Resources in respect of the adoption of the Treasury Management Strategy 2017/18 to 2019/20.

6. **AUDIT, CRIME & DISORDER AND SCRUTINY COMMITTEE; ANNUAL REPORT** (Pages 61 - 66)

To receive the Annual Report of the Audit, Crime & Disorder and Scrutiny Committee for 2016/17.

7. **MOTIONS TO COUNCIL** (Pages 67 - 68)

In pursuance of the Council's Rules of Procedure, to consider any Motions submitted by the due deadline.

Note: The deadline for Notice of Motions was 5.00pm on Monday 10 April 2017 (17.00 hours on the eighth clear working day before the meeting)

EPSOM AND EWELL

Minutes of the Meeting of the COUNCIL of the BOROUGH OF EPSOM AND EWELL held at the Town Hall, Epsom on 14 February 2017

PRESENT -

The Mayor (Councillor George Crawford); The Deputy Mayor (Councillor Liz Frost); Councillors Michael Arthur, Tony Axelrod, Richard Baker, Rekha Bansil, John Beckett, Steve Bridger, Kate Chinn, Alex Clarke, Graham Dudley, Robert Foote, Chris Frost Rob Geleit, Eber Kington, Omer Kokou-Tchri, Jan Mason, Tina Mountain, Barry Nash, Peter O'Donovan, Martin Olney, David Reeve, Humphrey Reynolds, Guy Robbins, Vince Romagnuolo, Clive Smitheram, Jean Steer, Mike Teasdale, Peter Webb, David Wood, Clive Woodbridge and Tella Wormington

Absent: Councillors Lucie Dallen, Neil Dallen, Hannah Dalton, Keith Partridge, Jane Race and Alan Sursham

The Meeting was preceded by prayers led by the Mayor’s Chaplain

38 DECLARATIONS OF INTEREST

No declarations of interest were made by Councillors regarding items on the Agenda.

39 MINUTES

The Minutes of the meeting of the Council held on 13 December 2016 were agreed as a true record and signed by the Mayor.

40 MAYORAL COMMUNICATIONS/BUSINESS

The press being in attendance, the Mayor reminded councillors that the meeting might be recorded and that the press might be taking photographs but that they had been asked to be mindful not to disrupt proceedings.

The Mayor also reminded members that they would shortly be receiving an email from the Democratic Services Manager regarding any Related Party

Transactions they were required to declare for audit purposes in relation to the closing of the Council's final accounts.

41 QUESTIONS FROM COUNCILLORS

Four questions had been addressed to Committee Chairmen, and written answers had been provided and published.

42 APPOINTMENT OF INTERIM CHIEF EXECUTIVE AND ASSOCIATED MATTERS

(Note: Kathryn Beldon left the Chamber during consideration of this item).

Council received a report from the Head of HR and Organisational Development regarding the appointment of an interim Chief Executive and associated matters.

Councillor Eber Kington **PROPOSED** and Councillor Clive Woodbridge **SECONDED** the recommendations in the report. Upon being put, the recommendations were **CARRIED** (Unanimously).

Accordingly, it was **RESOLVED that:**

(1) Kathryn Beldon be appointed as Electoral Registration Officer and Returning Officer (and other associated roles) with immediate effect.

(2) Kathryn Beldon be appointed as the interim Chief Executive to take effect from the last date of the current Chief Executive's contract of employment until such point as a new permanent Chief Executive's appointment takes effect following the recruitment process due to take place in February 2017 (should this be necessary).

(3) The Head of HR & Organisational Development be authorised to issue an interim contract of employment to Kathryn Beldon for the role of Chief Executive in line with the Council's terms and conditions of employment for the role of Chief Executive.

(4) The Council notes that the interim Chief Executive will automatically serve as Clerk to Epsom & Walton Downs Conservators and Nonsuch Park Joint Management Committee.

(5) Lee Duffy be appointed as Acting Director of Finance & Resources until such a point as when a new permanent Chief Executive is appointed.

(6) The Head of HR & Organisational Development be authorised to issue an acting contract of employment to Lee Duffy for the role of Director of Finance & Resources in line with the Councils terms and conditions of employment for the role of Director of Finance & Resources

43 BUDGET AND COUNCIL TAX 2017/18 - AMENDED FOLLOWING SURREY COUNTY COUNCIL DECISION ON PRECEPT

(Note: Kathryn Beldon returned to the Chamber for the remainder of the meeting)

The Council gave consideration to its 2016/17 budget, comprising both revenue and capital expenditure plans and Council Tax amounts for each band of dwelling which took account of recommendations of the Community & Wellbeing, Environment and Strategy and Resources Committees (appertaining to fees and charges, the revenue budget and capital programme).

An amended report had been issued on 9 February 2017, following, on 7 February 2017, the decision of Surrey County Council regarding its precept. The amended report was based on a recommended increase of £4.95 per annum (for Band D properties) in Council Tax reflecting the final settlement which had allowed District Councils to increase council tax by up to £5 or 2% whichever provided the higher increase in income.

In moving the recommendations of the Director of Finance and Resources, the Chairman of the Strategy and Resources Committee, Councillor Eber Kington, made a statement to the Council on the budget for 2016/17 to which Councillors Alexander Clarke and Vince Romanguolo responded.

Upon being put, the **MOTION** was **CARRIED**, there being 26 members in favour and 6 against as follows:

For the Motion (26)	**Against the Motion (6)**	**Not voting (0)**
Michael Arthur	Kate Chinn	
Tony Axelrod	Alex Clarke	
Richard Baker	Rob Geleit	
Rekha Bansil	Omer Kokou-Tchri	
John Beckett	Tina Mountain	
Steve Bridger	Vince Romagnuolo	
The Mayor		
Graham Dudley		
Robert Foote		
Chris Frost		
The Deputy Mayor		
Eber Kington		
Jan Mason		
Barry Nash		
Peter O'Donovan		
Martin Olney		
David Reeve		
Humphrey Reynolds		
Guy Robbins		
Clive Smitheram		
Jean Steer		
Mike Teasdale		
Peter Webb		

David Wood
Clive Woodbridge
Tella Wormington

Accordingly, it was **RESOLVED that:**

(1) it be noted that, under delegated powers, the Director of Finance and Resources calculated the amount of the Council Tax Base as 32,324.01 (Band 'D' equivalent properties) for the year 2017/18 calculated in accordance with the Local Government Finance Act 1992, as amended (the "Act");

(2) the following estimates recommended by the policy committees be approved:-

a) The revised revenue estimates for the year 2016/17 and the revenue estimates for 2017/18;

b) The capital programme for 2017/18 and the provisional programme for 2018 to 2020, as summarised in the capital strategy statement;

(3) the fees and charges recommended by the policy committees be approved for 2017/18.

(4) the Council Tax Requirement for the Council's own purposes for 2017/18 is £6,045,236;

(5) the budget risk assessment at Appendix 6 be received and the conclusion of the Director of Finance and Resources that these budget proposals are robust and sustainable as concluded in this report be noted;

(6) the Director of Finance & Resources' Statement on the Reserves as attached at Appendix 8 be received.

(7) the Prudential Indicators and Authorised Limits for 2017/18 as set out in Appendix 11 be approved including:-

c) Affordability Prudential Indicators

d) The actual and estimated Capital Financing Requirement

e) The estimated levels of borrowing and investment

f) The authorised and operational limits for external debt

g) The treasury management prudential indicators

(8) the following amounts be now calculated for the year 2017/18 in accordance with sections 31 to 36 of the Act:

a) **£53,806,686 being the aggregate of the amounts which the Council estimates for the items set out in section 31A(2) of the Act**

b) **£47,761,450 being the aggregate of the amounts which the Council estimates for the items set out in section 31(A)3 of the Act**

c) **£6,045,236 being the amount by which the aggregate at 8(a) above exceeds the aggregate at 8(b) above, calculated by the Council, in accordance with section 31A(4) of the Act, as its council tax requirement for the year.**

d) **£187.02 being the amount at 8(c) above divided by the amount at 1. above, calculated by the Council, in accordance with section 31(B) of the Act, as the basic amount of its council tax for the year**

(9) **that it be noted that Surrey County Council and Surrey Police Authority had issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwellings in the Council's area as indicated in the table below:-**

SURREY COUNTY COUNCIL

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	887.70	1,035.65	1,183.60	1,331.55	1,627.45	1,923.35	2,219.25	2,663.10

SURREY POLICE AUTHORITY

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	149.71	174.67	199.62	224.57	274.47	324.38	374.28	449.14

(10) **in accordance with Section 30 to 36 of the Local Government Finance Act 1992, the Council hereby sets the aggregate amounts shown in the tables below as the amounts of Council Tax for 2017/18 for each of the categories of dwellings.**

EPSOM AND EWELL BOROUGH COUNCIL

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	124.68	145.46	166.24	187.02	228.58	270.14	311.70	374.04

AGGREGATE OF COUNCIL TAX REQUIREMENTS

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	1,162.09	1,355.78	1,549.46	1,743.14	2,130.50	2,517.87	2,905.23	3,486.28

44 INCREASING THE COMMERCIAL PROPERTY ACQUISITION FUND

Council received a report from the Chief Executive regarding increasing the Commercial Property Acquisition Fund.

Councillor Eber Kington **PROPOSED** and Councillor Clive Woodbridge **SECONDED** the recommendations in the report. Upon being put, the recommendations were **CARRIED**, there being 27 members for and 3 members against.

Accordingly, it was

RESOLVED that:

(1) an increase to the Commercial Property Acquisition Fund of a further £60m to be funded by Prudential Borrowing be approved;

(2) a supplementary capital expenditure estimate of £60m for the financial year 2017/18 for (1) above for economic and social wellbeing purposes and to generate on-going revenue streams be approved;

(3) the revision of the Council's Prudential Indicators to reflect the additional £60m of Prudential Borrowing limits be approved;

(4) a mid-year appraisal update report be made to Strategy & Resources Committee on the strategy, portfolio performance and status of acquisitions made from the Commercial Property Acquisition Fund;

(5) a new regular update report be made to the Financial Policy Panel on the financial status of the commercial property investment portfolio and rental income profile.

45 STATEMENT OF COMMUNITY INVOLVEMENT IN PLANNING POLICY AND DEVELOPMENT MANAGEMENT

Council received a report from the Head of Place Development regarding the adoption of a Statement of Community Involvement in planning policy and development management.

Councillor Graham Dudley **PROPOSED** and Councillor David Wood **SECONDED** the recommendation in the report. Upon being put, the recommendation was **CARRIED** (Unanimously).

Accordingly, it was **RESOLVED that:**

the revised Statement of Community Involvement be approved and adopted.

46 MOTIONS TO COUNCIL

No notice of any motions had been received by the deadline of 5.00pm on 1 February 2017 (17.00 hours on the eighth clear working day before the meeting)

47 VOTE OF THANKS

The Mayor led a vote of thanks to the Chief Executive, Frances Rutter, who was leaving the Council to take up her appointment as the Chief Executive of NESCOT at the beginning of April. The Mayor stated that her excellent stewardship of the Council would be sadly missed and wished her well. These sentiments were echoed by Councillors Vince Romagnuolo, Tina Mountain and Clive Woodbridge on behalf of their respective political groups.

The meeting began at 7.30 pm and ended at 8.44 pm

GEORGE CRAWFORD
MAYOR

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EPSOM AND EWELL

Minutes of the EXTRAORDINARY Meeting of the COUNCIL of the BOROUGH OF EPSOM AND EWELL held at the Town Hall, Epsom on 7 March 2017

PRESENT -

The Mayor (Councillor George Crawford); Councillors Michael Arthur, Tony Axelrod, Richard Baker, John Beckett, Steve Bridger, Alex Clarke, Graham Dudley, Chris Frost, Eber Kington, Jan Mason, Tina Mountain, Barry Nash, Humphrey Reynolds, Guy Robbins, Clive Smitheram, Jean Steer, Mike Teasdale, Peter Webb, David Wood, Clive Woodbridge and Tella Wormington

Absent: The Deputy Mayor (Councillor Liz Frost), Rekha Bansil, Kate Chinn, Lucie Dallen, Neil Dallen, Hannah Dalton, Robert Foote, Rob Geleit, Omer Kokou-Tchri, Peter O'Donovan, Martin Olney, Keith Partridge, Jane Race, David Reeve, Vince Romagnuolo and Alan Sursham

The Meeting was preceded by prayers led by the Mayor's Chaplain

48 DECLARATIONS OF INTEREST

No declarations of interest were made by councillors regarding the item on the Agenda.

49 EXCLUSION OF PRESS AND PUBLIC

The Committee resolved to exclude the Press and Public from the meeting in accordance with the Council's Rules of Procedure and Section 100A (4) of the Local Government Act 1972 on the grounds that the business involved the likely disclosure of exempt information as defined in paragraphs 1 and 4 of Part 1 of Schedule 12A to the Act (as amended) and that pursuant to paragraph 10 of Part 2 of the said Schedule 12A the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

50 APPOINTMENT OF CHIEF EXECUTIVE

Council received a report from the Head of HR and Organisational Development which set out the recommendations of the Appointment Panel, convened in accordance with the Constitution, to consider the appointment of a Chief Executive. The Chief Executive would also fulfil the roles of Electoral Registration Officer and Returning Officer.

Councillor Eber Kington **PROPOSED** and Councillor Chris Frost **SECONDED** the recommendations in the report.

In moving the recommendations, Councillor Kington thanked the Head of HR and Organisational Development and her team for their support and his colleagues on the Panel. He commended the appointment of Kathryn Beldon as the stand out candidate in a strong field. Councillors Chris Frost and Alex Clarke echoed these sentiments.

Upon being put, the recommendations were **CARRIED** (Unanimously).

Accordingly, it was

RESOLVED that:

(1) the appointment of Kathryn Beldon to the post of Chief Executive approved and the proposal to formally offer the post to her endorsed;

(2) the appointment be made on terms which comply with the Councils Pay Policy Statement under section 38 of the Localism Act 2011 and the Appointments Panel be authorised to finalise all terms and conditions, following consultation with Head of Human Resources & Organisational Development;

(3) If the offer referred to in recommendation (1) be accepted, Kathryn Beldon be designated the Electoral Registration Officer and Returning Officer with effect from 3 April 2017;

(4) If the offer referred to in recommendation (1) be accepted, Kathryn Beldon be appointed as the Head of the Paid Service with effect from 3 April 2017;

(5) it be noted that the Chief Executive will automatically serve as Clerk to Epsom and Walton Downs Conservators and Nonsuch Park Joint Management Committee;

(6) If the offer referred to in recommendation (1) be accepted, Lee Duffy be appointed as the Council's s151 Officer and Acting Director of Finance & Resources, from 3 April 2017 until such time as the appointment of a new Director of Finance & Resources takes effect.

The meeting began at 6.30 pm and ended at 6.46 pm

GEORGE CRAWFORD
MAYOR

TREASURY MANAGEMENT STRATEGY 2017/18 TO 2019/20

Report of the:	Director of Finance and Resources
Contact:	Lee Duffy
Annexes/Appendices (attached):	**Annexe 1 –** Treasury Management Strategy
Other available papers (not attached):	None Stated

REPORT SUMMARY

This report recommends the adoption of the updated Treasury Management Strategy 2017/18 to 2019/20.

RECOMMENDATION (S)	*Notes*
That the Council adopt the updated Treasury Management Strategy 2017/18 to 2019/20.	

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 The Council's Treasury Management Strategy supports the achievement of the Council's Medium Term Financial Strategy.

2 Background

2.1 The Council holds investments averaging a balance of around £30m, but this fluctuates depending upon the level of reserves and cash flow surpluses. Depending on investment returns, the Council budgets to use around £200,000 of interest per annum to finance Council services or to maintain the value of provisions for future expenditure and commitments.

2.2 The Treasury Management Strategy sets out the management of risks associated with the treasury management service.

2.3 The Council is required to prepare a Financial Strategy for Treasury Management in line with CIPFA Prudential Code and Code of Practice on Treasury Management.

2.4 The Council recently secured borrowing to finance the purchase of two commercial properties costing c£19 million. In February 2017 Council agreed that borrowing could be increased to up to £80 million to fund further property acquisitions and agreed a number of Treasury Management indicators and limits associated with this decision.

2.5 The updated Treasury Management and Investment Strategies set out in the **Annexe** to this report are compliant with CIPFA Code of Practice on Treasury Management and were considered by the Strategy and Resources Committee at its meeting on 4 April 2017 taking into account the decision of Council in February.

3 Proposals

3.1 A large proportion of the Treasury Management Strategy remains the same as last year but this section aims to highlight any significant changes made on the previous year's Strategy.

3.2 The Prudential Indicators in Section 2 of the Strategy have been updated to reflect the latest figures approved by Council, with borrowing increasing to £80 million in 2017/18 and the level of investments expected to remain around £25 million until 2019/20.

3.3 Section 3 of the Strategy has been expanded when compared to last year as a result of the Council approving borrowing to finance the acquisition of commercial property. The CFR has increased as a result of this and in 2017/18 this reflects the £80 million approved borrowing agreed by Council in February 2017 less any MRP contributions made from revenue in that year.

3.4 Section 3 also includes a forecast for PWLB borrowing rates as the Council now has long term debt the prospects for interest rates on loans becomes more critical and should influence the Council's strategy on any future borrowing.

3.5 The Annual Investment Strategy in Section 4 has been amended from previous years with a request to increase counterparty limits to £5 million from £2.5 million. The reason for this is that since 2008 the credit ratings for eligible counterparties has reduced substantially and this has resulted in fewer institutions available for the Council to place investments. Independent advice was sought to allow for more effective investment of Council funds, and it was suggested that the Council should look to increase individual counterparty limits rather than allow investment with lower grade institutions.

3.6 In Section 5 the Strategy recommends a policy for the Council's treatment for MRP, with Asset Life Method being suggested it means that MRP over the period of the life of asset or loan (for property), e.g. £10m 50 year loan for acquisition of a property will make a charge to revenue of £200,000 per annum.

3.7 Section 6 provides an economic update from our independent financial advisors, Capita. This provides economic forecasts for UK and other world economies.

3.8 The Treasury Management practices set on in Section 7 have been updated to reflect the changes made in Section 4 of this Strategy.

3.9 Section 8 provides an updated list of approved countries for investment, new for 2017/18 are Finland, Hong Kong, USA, UAE, France, Qatar and Belgium.

3.10 During consideration of the matter by the Strategy and Resources Committee at its meeting on 4 April 2017, the following points were noted:

- the Financial Policy Panel would continue to receive presentations from the Council's Fund Managers but further training could be arranged as required;

- the Council always worked to the best advice available at any given time in relation to interest rates and inflation. Investments were generally short term to take account of the volatility in the market;

- the Council was very unlikely to invest in shares but this option was included in the Strategy to provide maximum flexibility in terms of available options. Officers would seek further approval if considering going down this route;

- the Council was approaching the point at which it would need to consider how it would finance its capital programme in future;

- The Municipal Bond Agency would be a new source of borrowing which the Council intended to make use of as and when appropriate as it was anticipated that its borrowing rates would be very competitive. Existing loans could not be transferred to this body.

3.11 Accordingly, subject to ratification by Council, the Strategy and Resources Committee approved:

3.11.1 The Capital Prudential Indicators and Limits for 2017/18 to 2019/20 contained within the Treasury Management Strategy Statement (Sections 2 and 5);

3.11.2 The Treasury Management Statement 2017/18 to 2019/20 and the Treasury Prudential Indicators contained within it (Section 3);

3.11.3 The Borrowing Strategy contained within the Treasury Management Statement (Section 3);

3.11.4 The Investment Strategy 2017/18 contained within the Treasury Management Strategy Statement (Section 4), including changes to counterparty limits;

3.11.5 The Minimum Revenue Provision (MRP) Policy Statement contained within the Treasury Management Strategy Statement (Section 5);

3.11.6 The treasury management practices as set out in Section 7 of the Treasury Management Statement; and

3.11.7 Recommended to Council the adoption of the updated Treasury Management Statement 2017/18 to 2019/20.

3.12 The updated Treasury Management Strategy is set out in the attached **Annexe** to this report.

4 Financial and Manpower Implications

4.1 Expenses on the Treasury Management Strategy and Policy will be managed within the budget provision of £42k for fund management fees and for treasury management advice for both borrowing and investing.

4.2 The treasury management arrangement will help secure the Council's investment (around £30m), assisting in generating budgeted returns to help fund services during the year whilst maintaining that investments are held with secure counterparties.

4.3 ***Chief Finance Officers comments:*** *Concur with information presented in report*

5 Legal Implications (including implications for matters relating to equality)

5.1 There are no specific implications for the purposes of this report.

5.2 ***Monitoring Officer's comments:*** *The legal requirements in respect of treasury management have been properly considered in the preparation of the Strategy.*

6 Partnerships

6.1 The Council works in partnership with the fund manager and the treasury consultants and a good working relationship is key.

7 Conclusion and Recommendations

7.1 In summary, the focus of the updated Treasury Management Strategy remains primarily on safeguarding sufficient of the Council's balances in secure and liquid investments to ensure overall stability.

7.2 The Strategy and Resources Committee considered and endorsed the Strategy (attached at **Annexe 1**) at its meeting on 4 April 2017.

WARD(S) AFFECTED: (All Wards);

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2017/18

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

> *"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important, report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid-year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Financial Policy Panel for the mid-year report and Strategy & Resources Committee for the Annual Treasury Management report.

1.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. During the last year by members of Financial Policy Panel have received presentations from the Council's treasury management advisors, further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The

Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

	2015/16 Actual £'000	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**
Capital expenditure	**2,999**	**24,274**	**61,249**	**976**	**535**
Financed by:					
Capital receipts & reserves	756	1,752	643	441	0
Capital grants	273	354	535	535	535
Other contributions	1,496	1,633	46	0	0
Revenue	474	535	25	0	0
Total	**2,999**	**4,274**	**1,249**	**976**	**535**
Net financing need for the year	**0**	**20,000**	**60,000**	**0**	**0**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The Council is asked to approve the CFR projections below:

	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital Financing Requirement					
Total CFR	**0**	**20,000**	**79,600**	**78,000**	**76,400**
Movement in CFR	**0**	**+20,000**	**+59,600**	**-1,600**	**-1,600**

	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Movement in CFR represented by					
Net financing need for the year (above)	0	20,000	60,000	0	0
Less MRP/VRP and other financing movements	0	0	-400	-1,600	-1,600
Movement in CFR	**0**	**20,000**	**59,600**	**-1,600**	**-1,600**

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Fund balances / reserves	3,171	3,171	3,171	3,171	3,171
Capital receipts	4,968	2,362	1,719	1,278	1,278
Earmarked reserves	9,813	10,516	10,516	10,516	10,516
Other	2,908	3,059	3,059	3,059	3,059
Total core funds	**20,860**	**19,108**	**18,465**	**18,024**	**18,024**
Working capital*	7,000	7,000	7,000	7,000	7,000
Expected investments	**27,860**	**26,108**	**25,465**	**25,024**	**25,024**

* Working capital balances shown are estimated year end; these may be higher mid-year

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
External Debt					
Debt at 1 April	0	0	20,000	79,600	78,000
Expected change in Debt	0	20,000	59,600	-1,600	-1,600
Actual gross debt at 31 March	**0**	**20,000**	**79,600**	**78,000**	**76,400**
The Capital Financing Requirement	**0**	**20,000**	**79,600**	**78,000**	**76,400**
Under / (over) borrowing	**0**	**0**	**0**	**0**	**0**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Director of Finance and Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary: This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Total Debt	20,000	80,000	80,000	80,000

The authorised limit for external debt: A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Total Debt	25,000	85,000	85,000	85,000

3.3 Prospects for interest rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
    - Italian constitutional referendum 4.12.16 resulted in a ‘No’ vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
    - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
    - Dutch general election 15.3.17;
    - French presidential election April/May 2017;
    - French National Assembly election June 2017;
    - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK’s main trading partners - the EU and US.

The potential for **upside risks to current forecasts** for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.4 Borrowing strategy

The Council aims to maintain an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), may not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow can be used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Director of Finance and Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Council, at the earliest meeting following its action.

Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in section 7.1 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance and Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Capita Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks 1 - good credit quality **–** the Council will only use banks which:
    i. are UK banks; and/or
    ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AAA

  and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
    i. Short Term – *F1*
    ii. Long Term – *A-*
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies - The Council will *use* all societies which:
    i. Meet the ratings for banks outlined above;
    ii. Have assets in excess of *£1bn*;

    or meet both criteria.
- Money market funds (MMFs) – *AAA*
- Enhanced money market funds (EMMFs) – with a risk score of 1.5
- UK Government (including gilts and the DMADF)
- Local authorities, parish councils etc
- Supranational institutions

- Pooled property funds – up to £5m*.*

A limit of 50% will be applied to the use of non-specified investments.

Use of additional information other than credit ratings: Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments: The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long term Rating (or equivalent)	Money and/or % Limit	Time Limit
Banks 1 higher quality	***F1/AAA/B/1***	**£5m**	**5yrs**
Banks 1 medium quality	***F1/AA-/B/2***	**£5m**	**3yrs**
Banks 1 lower quality	***F1/A-/C/3***	**£5m**	**1yr**
Banks 2 – part nationalised	**N/A**	**£5m**	**1yr**
Limit 3 category – Council's banker (not meeting Banks 1)	**N/A**	**£5m**	**1 day**
DMADF	**AAA**	**unlimited**	**6 months**
	Fund rating	**Money and/or % Limit**	**Time Limit**
Local authorities	**N/A**	**£5m**	**1yr**
Money market funds	**AAA**	**£5m**	**Liquid**
Enhanced money market funds	**AAA**	**£5m**	**Liquid**

The proposed criteria for specified and non-specified investments are shown in Appendix 7.1 for approval.

4.3 Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of *AA-* from Fitch *(or equivalent*). The list of countries that qualify using this credit criteria as at the date of this report are shown in

Section 8 of this report. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

In addition:

- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

The minimum credit rating does not apply to the UK.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

	Now
2016/17	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%
2021/22	1.00%
2022/23	1.50%
2023/24	1.75%
Later years	2.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	**2017/18**	**2018/19**	**2019/20**
Principal sums invested > 364 days	£10m	£10m	£10m

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.5 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.6 External fund managers

Around £20m of the Council's funds are externally managed on a discretionary basis by Aberdeen Asset Management.

The Council's external fund manager(s) will comply with the Annual Investment Strategy. The agreement(s) between the Council and the fund manager(s) additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The minimum credit criteria to be used by the cash fund manager(s) are as follows: -

	Fitch	**Moody's**	**Standard and Poors**
Long Term	A-	A2	A
Short Term	F1	P1	A-1

The fund manager's view on interest rates and opportunities for gilts / bonds is as follows:

To combat the expected post-Brexit economic shock, Governor Mark Carney supported his comment to take whatever action was needed to support growth; subsequently, the central bank announced a relatively comprehensive easing package in August, part of which was a reduction in rates to 0.25%. Surprisingly, the economy has generally performed better than expected over the period although growth is still expected to be well below potential.

Sterling's depreciation against the US dollar – to a thirty year low – has contributed to the rise in inflation, particularly the prices of imported goods. A weaker currency makes goods priced in other currencies more expensive to both the UK consumer and businesses, and will likely fuel inflation during 2017. The MPC has remained on hold since cutting rates in August; initial guidance had been about potentially easing further, however, stronger economic data surprising to the upside has led to a more neutral outlook. There is no real consensus as to when the next move may be, for now the market has removed all expectations for a cut, with any rise being pushed further out, although some MPC members are somewhat concerned at the higher level of inflation, which has led to the March meeting seeing one member Kristen Forbes voting for a rise, however, she will be leaving the committee after the June meeting and could potentially be replaced by a less hawkish member.

The fund had been defensively positioned to reduce volatility into the June referendum, exposure to UK and European names in senior debt was limited to 2 year maturities with anything longer in covered bond only, preferring to take exposure to other countries such as Australian and Canadian banking names. However, as it became apparent following the referendum result that the MPC would reduce rates, the funds maturity provide was pushed much longer in anticipation of the market pricing a lower yield environment. Asset Backed Securities have performed well, with yields falling aggressively both in secondary and new issuance which has seen this sector remain relatively expensive, and as such the funds overall exposure levels have reduced, to below 10% of the fund. Yield levels remain challenging, issuance in quality names at attractive levels is relatively scarce as the overall yield curve is flatter so the risk reward of moving longer is not as attractive. That aside the fund's performance is in line with expectations albeit at the lower end of our estimate as yields have continued to be squeezed lower.

5 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2017/18 – 2019/20 AND MRP STATEMENT

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

5.1 Capital expenditure

Capital expenditure	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Strategy & Resources	417	21,265	60,291	97	0
Environment	247	1.372	267	344	0
Community & Wellbeing		1,637	697	535	535
Social	448				
Leisure	1,887				
Total	**2,999**	**24,274**	**61,249**	**976**	**535**

5.2 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. The Council is recommended to approve the following MRP Statement*:*

For all unsupported borrowing (including PFI and finance leases) the MRP policy will be*:*

Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations.

This option provides for a reduction in the borrowing need over approximately the asset's life.

5.3 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Ratio	-1.0	-2.2	48	47	49

The estimates of financing costs include current commitments and the proposals in this budget report.

b. Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

c. Incremental impact of capital investment decisions on the band D council tax

	2015/16 Actual £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Council tax - band D	1.20	9.48	28.42	0.53	0

5.4 Treasury indicators for debt

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2017/18	2018/19	2019/20
Interest rate exposures			
	Upper £'000	**Upper £'000**	**Upper £'000**
Limits on fixed interest rates borrowings	80,000	80,000	80,000
Limits on variable interest rates borrowings	0	0	0
Maturity structure of fixed interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	0%
12 months to 2 years		0%	0%
2 years to 5 years		0%	0%
5 years to 10 years		0%	0%
10 years to 20 years		0%	0%
20 years to 30 years		0%	0%
30 years to 40 years		0%	0%
40 years to 50 years		0%	100%

Maturity structure of variable interest rate borrowing 2017/18		
	Lower	**Upper**
Under 12 months	0%	0%
12 months to 2 years	0%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years to 20 years	0%	0%
20 years to 30 years	0%	0%
30 years to 40 years	0%	0%
40 years to 50 years	0%	0%

6 ECONOMIC BACKGROUND

UK: GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.6%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3 November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in quarter 4 grew reasonably strongly, increasing by 1.2% and added 0.1% to GDP growth. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, by December it had fallen back to -7 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16).This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.6% in December. However, prices paid by factories for inputs are rising very strongly although producer output prices are still lagging well behind.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA: The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.5% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its

December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

<u>Euro Zone:</u> In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.
There are also significant specific political and other risks within the EZ: -

Greece continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.

Spain has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.

4 December Italian constitutional referendum on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy’s core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

Dutch general election 15.3.17; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.

- **French presidential election;** first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**

German Federal election August – 22 October 2017: This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.

- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia: Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries: There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

7 TREASURY MANAGEMENT PRACTICES

TMP1 Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 13 April 2012 and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).

2. Supranational bonds of less than one year's duration.

3. A local authority, parish council or community council.

4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated *AAA* by Standard and Poor's, Moody's and / or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are;

	Fitch (or equivalent)	Moody's	Standard & Poors	Money Limit	Time Limit
Upper Limit Category	F1 / AAA / B / 1	P-1 / Aaa / B	A-1 / AAA	£5m	5yrs
Middle Limit Category	F1 / AA- / B / 2	P-1 / Aa3/ B	A-1 / AA-	£5m	3yrs
Lower Limit Category	F1 / A- / C / 3	P-1 / A3 / C	A-1 / A	£5m	1yr
Building Society	Meet banks criteria or assets in excess of £1bn and are an 'eligible institution'			£5m	1yr
DMADF	AAA			unlimited	6 months
Money Market Funds	AAA			£5m	no limit
Enhanced Money Market Funds				£5m	no limit
Other Local Authorities				£5m	1yr
Supranational				£5m	5yrs
Gilts				£5m	10yrs
Guaranteed Organisations				£5m	length of guarantee

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit (£ or %)
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail, the Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings, 50% of money invested through external fund manager. Restriction of 5yrs maximum maturity
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	50% of money invested through external fund manager. Restriction of 10yrs maximum maturity
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	In this instance balances will be minimised as far as is possible.
d.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £1bn, but will restrict these type of investments to 12 months	£5m per institution.
e.	Any **bank or building society** that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Maximum of 50% on investments over 1yr

	Non Specified Investment Category	Limit (£ or %)
f.	Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to the parent bank having the necessary ratings outlined in (e) above and a guarantee from the parent company.	£5m per institution.
g.	**Share capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.	Maximum £5m per institution, subject to minimum rating of AA- (long term)
h.	**Property funds** – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	Maximum £5m per fund

NOTE 1: This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly {*If you do not currently receive our counterparty service please contact us for further information of the service. It will be impossible to meet the requirements unless regular credit ratings are available*.) On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

Use of external fund managers – It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council's investment strategy. The terms of the fund managers' investment policies are in accordance with strategy detailed above and are detailed in the contract with the fund manager. The performance of the manager is reviewed at least annually by the Director of Finance and Resources and the manager is contractually required to comply with the annual investment strategy.

TMP2 Performance measurement

The Council has a number of approaches to evaluating treasury management decisions: -

a. Monthly reviews carried out by the treasury management team

b. Reviews with our treasury management consultants & external fund manager

c. Annual review after the end of the year as reported to Strategy & Resources Committee

d. Half yearly monitoring report to Financial Policy Panel

e. Quarterly monitoring reports

The treasury management team holds reviews with our consultants every 6 months to review the performance of the investment and debt portfolios.

An Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the investment portfolio. This report contains the following: -

a. average investments held during the financial year and average interest rates

b. investment strategy for the year compared to actual strategy

c. explanations for variance between original strategies and actual

d. comparison of return on investments to the investment benchmark

e. compliance with Prudential and Treasury Indicators

The performance of investment earnings will be measured against the following benchmarks: -

a. In house investments
7 day LIBID

b. External fund manager
7 day LIBID

Epsom & Ewell Borough Council's policy is to appoint external investment fund managers to manage a proportion of its cash and will comply with the Local Authorities (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883}.

The delegation of investment management to external managers will entail the following:

- Formal contractual documentation;
- Agreement on terms for early termination of the contract;
- Setting of investment instruments, constraints/parameters/conditions

- Setting of investment counterparty limits;
- Setting a performance measurement benchmark and a performance target;
- Frequency of performance reporting;
- Frequency of meetings with investment managers;

The Code of Practice places an obligation on the Council to monitor the performance of the fund managers. This Council has appointed Capita Asset Services to assist in this respect.

TMP3 Decision – making and analysis

Epsom & Ewell Borough Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the scheduled to this document."

The Treasury team will ensure that the following records will be retained*:* -

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- Dealing slips for all money market transactions
- Brokers' confirmations for investment transactions
- Confirmations from borrowing institutions where deals are done directly
- Contract notes received from fund manager
- Fund manager valuation statements

Processes to be pursued:

- Cash flow analysis
- Investment maturity analysis
- Ledger reconciliation
- Performance management information

TMP4 Approved instruments, methods and techniques

Epsom & Ewell Borough Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy and within the limits and parameters defined.

TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements

Allocation of responsibilities

(i) Full council

- approval of annual strategy.

(ii) Strategy & Resources Committee

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing annual monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Financial Policy Panel

- receiving and reviewing half yearly monitoring report and acting on recommendations

(iv) Director of Finance and Resources

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

Principles and Practices Concerning Segregation of Duties

The following duties must be undertaken by separate officers: -

Dealing	Negotiation and approval of deal. (Dealer 1) Production of transfer note. (Dealer 1)

Bank	Entry of transaction onto bank (Finance Officer)
Authorisation/Payment of Deal	Approval and payment. (Dealer 2)
Accounting Entry	Processing of accounting entry (Exchequer Team) Reconciliation of cash control account. (Exchequer Team)
Bank	Bank reconciliation (Exchequer Team)

Statement of the treasury management duties/responsibilities of each treasury post

The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Director of Finance and Resources. This person will carry out the following duties: -

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.
- The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- The responsible officer may delegate his power to borrow and invest to members of his staff. The Treasury Management Team must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness.

- The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations

- It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

The Head of Financial services

The responsibilities of this post will be: -

a) execution of transactions

b) adherence to agreed policies and practices on a day-to-day basis

c) maintaining relationships with counterparties and external service providers

d) supervising treasury management staff

e) monitoring performance on a day-to-day basis

f) submitting management information reports to the responsible officer

g) identifying and recommending opportunities for improved practices

The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented

b) Ensuring that the responsible officer reports regularly on treasury policy, activity and performance.

The Monitoring Officer – the Head of Legal Services

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.

b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.

c) Giving advice to the responsible officer when advice is sought.

Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.

b) Reviewing division of duties and operational practice.

c) Assessing value for money from treasury activities.

d) Undertaking probity audit of treasury function.

Absence Cover Arrangements

Five officers within the Finance Team have the authority to place deals, with a further three officers able to input trades onto the system ready for authorisation.

Dealing

The following posts are authorised to deal: -

- Head of Financial Services
- Chief Accountant
- 3 Senior Accountants
- 3 Accountants

TMP6 Reporting requirements and management information arrangements

Epsom & Ewell Borough Council will ensure that regular reports are prepared and considered on the implementation of its treasury managements policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implementations of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the council will receive:

- an annual report on the strategy and plan to be pursued in the coming year.

- a mid-year review on the current performance of the treasury management function.

- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

TMP7 Budgeting, accounting and audit arrangements

The Director of Finance and Resources will prepare, and Epsom & Ewell Borough Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management functions, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Best value and performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangement.*

Epsom & Ewell Borough Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

Epsom & Ewell Borough Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP8 Cash and cash flow management

Cash flow projections are prepared annually and updated daily. The annual cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Director of Finance and Resources, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring.

TMP9 Money Laundering

Epsom & Ewell Borough Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

TMP10 Staff training and qualifications

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

a) Treasury management staff employed by the Council

b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Personal Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Director of Finance and Resources to ensure that all staff under his authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

Statement of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

TMP11 Use of external service providers

Epsom & Ewell Borough Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies.

TMP12 Corporate governance

Epsom & Ewell Borough Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

The following documents are available for public inspection: -

Treasury Management Policy Statement

Treasury Management Strategy Statement

Annual Investment Strategy

Minimum Revenue provision policy statement

Annual Treasury Review Report

Treasury Management monitoring reports (e.g. half yearly, quarterly)

Annual accounts and financial instruments disclosure notes

Annual budget

3 Year Capital Plan

Minutes of Council / committee meetings

8 APPROVED COUNTRIES FOR INVESTMENTS (as at 16th December 2016)

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

AA-

- Belgium

9 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

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AUDIT, CRIME & DISORDER AND SCRUTINY COMMITTEE; ANNUAL REPORT

Report of the:	Head of Legal and Democratic Services
Contact:	Margaret Jones
Annexes/Appendices (attached):	Annexe 1 – Annual Report
Other available papers (not attached):	

REPORT SUMMARY

In accordance with Article 6 of the Council's Constitution, the Audit, Crime & Disorder and Scrutiny Committee is required to report annually to the Council about its work.

RECOMMENDATION (S)	*Notes*
That the Council receives the Annual Report of the Audit, Crime and Disorder and Scrutiny Committee.	

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 The work of the Audit, Crime & Disorder and Scrutiny Committee potentially cuts across all of the Council's Key Priorities and Core Values. In particular, it contributes to the Council's Key Priority "Managing our Resources" and the Core Value of "Continuous Improvement".

2 Background

2.1 Under Article 6 of the Constitution, the Audit, Crime & Disorder and Scrutiny Committee is required to report annually to the Council on its work and make recommendations for future work programmes and amended work methods, if appropriate.

3 Proposals

3.1 The Committee considered its draft Annual Report for 2016/17 at its meeting on 11 April 2017 and agreed that the Scrutiny Officer in consultation with the Chairman, be authorised to make any amendments or additions necessary to reflect the outcome of the meeting.

3.2 The Annual Report for 2016/17 attached as an Annexe to this report has been updated to take into account attendance at the April meeting of the Committee.

3.3 Accordingly, Council is asked to receive the Annual Report of the Audit, Crime and Disorder and Scrutiny Committee for 2016/17.

4 Financial and Manpower Implications

4.1 There are no financial or manpower implications for the purposes of this report.

4.2 ***Chief Finance Officer's comments:*** *None for the purposes of this report.*

5 Legal Implications (including implications for matters relating to equality)

5.1 There are no particular legal implications for the purpose of this report.

5.2 ***Monitoring Officer's comments:*** *None for the purposes of this report.*

6 Sustainability Policy and Community Safety Implications

6.1 There are no particular sustainability implications for the purposes of this report.

6.2 A responsibility of the Audit, Crime & Disorder and Scrutiny Committee is to scrutinise the work of the local Community Safety Partnership.

7 Partnerships

7.1 There are no particular partnership implications for the purposes of this report.

8 Risk Assessment

8.1 There are no particular risks for the purposes of this report.

9 Conclusion and Recommendations

9.1 This Annual report is presented to Council in accordance with Article 6 of the Council's Constitution.

WARD(S) AFFECTED: (All Wards);

Annual Report of the Audit, Crime & Disorder and Scrutiny Committee 2016/17

1. Introduction

1.1 This Annual Report provides Council with an overview of the work of the Audit, Crime & Disorder and Scrutiny Committee for 2016/17.

1.2 The work of the Committee during 2016/17 has been taken forward by its ten members; attendance at the five formal meetings of the committee is shown in the table below.

Member	Actual Attendance at Meetings	Nominated Substitute
Councillor David Reeve (Chairman)	5	
Councillor Clive Smitheram (Vice Chairman)	5	
Councillor Tony Axelrod (Appointed Committee member 9 September 2016)	4	
Councillor Steve Bridger	5	
Councillor Alex Clarke	3	
Councillor Rob Geleit	4	
Councillor Jan Mason	5	
Councillor Peter O'Donovan	3	
Councillor Humphrey Reynolds	5	
Councillor David Wood	2	3
Councillor Tella Wormington (Committee Member until 9 September 2016)	1	

1.3 In June 2016 the Committee considered and agreed its work programme for 2016/17. The work programme was designed to ensure that the Committee met its responsibilities both statutory and local and provided the Council with added value and reassurance. An overview of the main items considered by the Audit, Crime & Disorder and Scrutiny Committee across the year is set out below.

Effectively holding decision makers to account

1.4 A key function of the Audit, Crime & Disorder and Scrutiny Committee is to ensure effective, transparent and accountable decision making. To help fulfil this particular role the Committee has the power to review policy committee decisions made but not yet implemented through the Council's Call-in procedure and to consider an annual report on the use of delegated powers at the Council. It has the power to question both officers and members.

1.5 During 2016/17 the Committee did not receive any requests to use its call-in power from members of the Committee or any other body/individual. In June 2016, twenty one decisions were reported to the Committee as having been recorded or pending on the Council's delegated decision proforma. The Committee did not raise any particular concerns.

1.6 The Audit, Crime & Disorder and Scrutiny Committee considered regular performance management reports which highlighted progress made by the policy committees in meeting their key performance priority targets. As well as noting a general overview, the Committee considered in more detail those targets reported as being on amber or red performance status. The Committee noted the actions that had been proposed or taken where performance was a concern. The Committee did not raise any particular matters but discussed the impact of external factors on the achievement of some priority targets.

1.7 In February 2017 the Committee received a monitoring report on the Regulation of Investigatory Powers Act 2000 (RIPA). The Committee noted that no requests for authorisations had been made by officers since 2010. The Committee agreed that it should wish to receive an annual report on the use of RIPA at the Council, even if no requests for authorisations had been made. It asked to be notified of any changes in the law, changes to authorised officers, and whether training had been provided to authorised officers.

1.8 Lastly, the Committee as the Council's Crime & Disorder Committee received two reports on the Epsom & Ewell Community Safety Partnership (CSP). The Committee was informed of the CSP's proposal to merge with the East Surrey Community Safety Partnership following approval by the Environment Committee in October 2016 and agreement of the Surrey Police and Crime Commissioner (agreement has since been received).

Contributing to more effective policies, improving services, and improving the quality of life for local people

1.9 Two further key aspects of the role of the Audit, Crime & Disorder and Scrutiny Committee are (i) to secure improvements across the Council, and (ii) to consider the social, economic and environmental wellbeing of the Borough. In relation to this latter area the Committee has the ability to report on any matter which affects Epsom and Ewell as well as its residents.

1.10 During 2016/17 the Committee considered Council CCTV provision, encompassing Town Centres' (streetscene) CCTV, Public Car Parks CCTV, Council venues/other facilities CCTV, and Council vehicles CCTV. A particular focus of the review was on street scene CCTV. The Committee was informed that it was proposed that street scene CCTV would continue at current levels despite changes to monitoring arrangements following the demise of the current streetscene CCTV contract on 31 March 2017. The Committee was also informed that work was being progressed to document compliance with the Surveillance Code of Practice; the Committee is to receive a further report on this during the next municipal year.

1.11 In February 2016, the previous Committee agreed to undertake a Review of Venues. It appointed a scrutiny task group comprising four members to undertake the investigatory work which has continued into 2016/17. The review was intended to assist in development of the Medium Term Financial Strategy. Terms of Reference were considered by the Financial Policy Panel on 1 December 2015.

1.12 The task group undertook a number of different evidence gathering exercises which sought input from various parties both internal and external. It reported its findings on Bourne Hall (including Bourne Hall Museum) and Hook Road Arena, together with recommendations, to the October 2016 meeting of the Committee. The report and recommendations approved by the Committee were presented by the Chairman and Vice Chairman to the November 2016 Community & Wellbeing Committee. The Community & Wellbeing Committee supported funding for renovation work to the Bourne Hall kitchen and agreed to establish a working party comprising its Chairman and Vice Chairman and officers to further investigations into securing improvements at Bourne Hall.

1.13 The task group has since January 2017 progressed the second phase of the Review of Venues; it is currently reviewing Epsom Playhouse. Its findings are to be reported in November 2017.

1.14 In relation to its 2015/16 scrutiny review of the administrative arrangements associated with the publication and determination of planning applications, the Committee received an update at its April 2017 meeting on action taken to date by the Council. In relation to another of its 2015/16 reviews (Routecall) Members of the Committee were informed that the Community & Wellbeing Committee had requested the Audit, Crime & Disorder and Scrutiny Committee to undertake a review of the rebranded community services in April 2018.

Adding value

1.15 Throughout 2016/17 the Audit, Crime & Disorder and Scrutiny Committee received regular reports from both internal and external audit. Auditors attended meetings of the Committee to present their findings and answer members' questions directly.

1.16 In June 2016 the Committee received the Internal Audit Assurance Report 2015/16 together with an assessment of the internal auditor's performance by the Director of Finance & Resources. At this meeting the Committee confirmed the adequacy of the arrangements made for preparing the Council's Annual Governance Statement. The Committee endorsed the 2015/16 Annual Governance Statement prior to it being certified by the Chief Executive and Chairman of Strategy & Resources Committee.

1.17 In February 2017 the Committee noted that the external auditor had issued an unqualified opinion regarding the Council's grant certification. The Committee expressed its thanks and congratulations to officers in the Council's Finance and Revenues & Benefits Teams for achieving such positive reports.

1.18 The Committee considered the Council's risk management framework in November 2015. It considered a new Risk Management Strategy 2017 – 2021 and confirmed that it was satisfied with the arrangements in place. The Committee considered the Council's Leadership Risk Register, but did not highlight any matters of concern to the Leadership Team.

Conclusion

1.19 To conclude its Annual Report, the Audit, Crime & Disorder and Scrutiny Committee wishes to record its particular thanks to all those who contributed to the work of the Committee across the year and thereby enabled it to meet its responsibilities to the Council during 2016/17.

COUNCIL MOTION

In accordance of the Council's Rules of Procedure, Councillor Omer Kokou-Tchri will move and Councillor Alex Clarke will second that:

1. The Audit, Crime & Disorder and Scrutiny Committee be requested to establish a review group comprising representatives from each political group, to undertake a review of the proposal to explore the opportunities to twin the Borough of Epsom & Ewell with Graübunden and to report to the Strategy & Resources Committee at the earliest opportunity.
2. Strategy & Resources Committee consider the report of the Audit, Crime & Disorder and Scrutiny Committee, and make such recommendations to Council as they think fit by December 2017.
3. Officers be asked to consider whether it might be possible, within existing resources, to hold or support holding a Swiss themed event this year 2017, either on or around the Swiss national day of "1 August", or at such other time as may be considered appropriate.

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